

## INTRODUCTION

By spring, 1996, Moscow's Lyusinovskaya St., with its faceless buildings of yellow-beige brick, had changed little since Soviet times. A couple of signs advertising Coca-Cola and Mars bars seemed all that was new—and a cheap, corrugated tin sign that read “Paninter.” Like so many in Russia, these appearances were deceiving. Hidden behind this dingy façade, at the end of a bumpy, puddled driveway, were the attractive, new headquarters of Paninter, the company founded by Aleksandr Panikin, one of the earliest and most successful of Russia's middle-level manufacturers.

Stepping inside the new, wrought iron gate and past the inevitable guard, my colleague James West and I stepped into a different world. A number of Mercedes were parked in the sumptuously paved, tree-shaded courtyard. The surrounding buildings were freshly stuccoed and painted pastel yellow. The guard led us up a marble staircase into an oak-lined waiting room furnished with comfortable leather chairs. This was one of the hundreds of new “microworlds,” the local, privately financed business domains that are gradually reconstructing the looks and life of Moscow from the inside out, often invisible to the foreigner on the street. A large man with curly black hair strode out to welcome us with a strong handshake. This was Panikin, the creator of the world of knit clothing that is Paninter.

The tale that follows tells a post-Soviet business success story. It may possibly be the first personal account of the inner workings of building a private enterprise in Russia. Growing up on the streets of the southern Russian city, Krasnodar, Panikin knew at an early age that he did not fit the mold of the good Soviet citizen. He liked to invent ways to make money and to create networks to produce and sell needed consumer goods. As a theater student in the 1970s he found legal loopholes in the centralized, state-owned economy that allowed him and his co-workers to manufacture decorative wall masks and sell them on the street. From there, the logic of demand led him to change to production of other consumer goods—earrings, toys, baby clothes—coming by 1990, just before the collapse of the Soviet Union, with his own barely-capitalized, multinational company, Paninter.

Panikin's experience is striking in that he built his own capital base, working legally as much as possible, without having connections with the communist elite (the *nomenklatura*) but successfully using loopholes in the system to his own advantage. He has built a business in the garment industry that faces stiff competition from Indian and Turkish competitors, and he is more than holding his own. He stands as clear proof that Russians can succeed and compete in manufacturing even without a strong capitalist tradition and faced with a bureaucratic environment, and popular opinion, that barely tolerates grassroots initiative.

*Private Wealth—National Vision* tells of a personal experience in the market economy that has reemerged in a society long hostile to the notion of

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private wealth and property. The Soviet State saw itself as the victor over capitalism and its social injustices. Throughout the 74 years of Soviet rule instincts of private economic gain were supposed to have been eradicated through education and indoctrination—or, failing that, through imprisonment and even execution. The new economic ideal was the selfless industrial worker, the *udarnik*, endowed with promethean energies, who put the state and the collective before personal gain.

American readers generally have the impression that post-Soviet capitalism is wild and chaotic, lacking a firm legal basis that would defend the rights of ownership. The post-Soviet market economy is usually portrayed in the American press as a situation in which a few men from the *nomenklatura*, the former Communist elite are in control. They have now changed their ideological stripes and are using their position to pump money and resources as fast as possible out of the country into foreign banks and companies.

Although this self-serving oligarchy is undeniably part of the picture in contemporary Russia, Panikin offers us the more hopeful view of a self-made man and his struggle for success. Panikin paints a refreshingly concrete, generally candid, if self-aggrandizing picture of a manufacturer who rose from the ranks of the urban poor to beat the bureaucracy and the Soviet *nomenklatura* at its own game. His story shows exactly how hard it was for an ordinary person without contacts in the all-powerful Communist Party to fight the status quo and to bypass tight restrictions on cash, real estate, and raw materials. This memoir is a tribute to the boundless energy that it took to create an industry that eventually came in the post-Soviet world to compete successfully in price and quality with imported goods.

In Russia the story of renewed individual economic initiative is particularly poignant, in large part because there are no lasting historical traditions of law, ethics, or social stability in the Russian business world. This weakness has important historical reasons. Starting with the Code of 1649 that created four estates in Russian society, the Russian business estate, the merchantry, was severely limited in its civil rights. Merchants had little choice as to where they might live and conduct trade. Travel and education were restricted. They were heavily taxed and had little recourse to the law. By comparison the privileged nobility could own land, had access to cheap labor, could travel and was exempt from heavy taxation. The merchantry clearly suffered from an inferior legal status.

Throughout the nineteenth century, well before the Bolshevik Revolution of 1917, capitalism was seen as something alien to Russian culture, something imported from Western Europe. Large factories were concentrated in a handful of cities, and the rest of the country was agrarian and functioned largely through a barter economy. Despite the fact that Western European entrepreneurs settled in Russia and owned and operated

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some of Russia's largest pre-revolutionary industries, they often lived in their own "colonies," never fully assimilating.

This situation fostered the commonly held view that Russia's economic strength was in the land, not in the factory. As the famous memoirist Pavel Buryshkin wrote in his book, *Merchant Moscow*: "For an unbelievably long time Russians held to the opinion that their country was agrarian. Manufacturing was superfluous, Russian industry would never be able to compete with Western European industry, and, finally, the factory and its whole way of life was corrupting people." Not only were Russian entrepreneurs seen as being substandard by comparison with their western counterparts, but industrialization itself was viewed by the state and the educated elite as a morally corrosive force, something that Russia should avoid and leave to other countries.

On the whole, the pre-revolutionary Russian merchantry was indeed poorly educated, culturally backward, and politically benighted. It earned the reputation of being deceptive and merciless. Powerful writers focused on the merchant life as the "realm of darkness," embodying everything that was wrong with Russia. Such Russian classics as Tolstoy's War and Peace or Dostoevsky's Brothers Karamazov show merchants as speculators and cheaters, sometimes cruel and always dishonest and greedy. The "good" entrepreneur is typically an uninteresting, even bland, foreigner. In Goncharov's novel, Oblomov, the honest, industrious businessperson is a russified German, a rather flat character, in contrast to the feckless, but much more fully drawn and emotionally appealing, Russian nobleman.

The modern Russian industrial elite, when it emerged in the last decades of the nineteenth century, could find no principle of solidarity and no unified voice. It was fragmented along ethnic, geographical, and class lines. There was no cohesion among ethnic groups, Jews, Poles, Azeris, Armenians, and Russians. Oil barons in Baku on the Caspian Sea had little to do with textile mill owners in the central, Moscow region, who in turn perceived little commonality with the arms makers up in St. Petersburg and the Baltic area. Industrialists from the traditional merchantry felt they shared few interests with gentry industrialists or with professionals of mixed social and ethnic background working in industry.

The drama of present-day Russia lies in the confrontation between this age-old resistance to independent enterprise and the urgent need to focus energy on the efficient production of reasonably priced goods of high quality.

Panikin's story starts in the 1970s, a repressive time, when Leonid Brezhnev was Chair of the Communist Party and President of the Soviet Union. Panikin grew up in a country with a "command economy" (the opposite of a market economy). In the Soviet Union every step of planning, distribution of materials, production of goods, and sales was controlled by a tiny elite in the Politburo and the Council of Ministers at the top of the

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gigantic Soviet economic pyramid. This command economy was characterized by state ownership, compulsory government employment, tight control of raw materials, and a scarcity of badly needed consumer goods.

At the foundation of the Soviet economic system was government ownership of all land and buildings. There were no private businesses. Although all businesses were owned by the state, even these state enterprises had to rent the buildings and land that they occupied. No one could own real estate. Even now, it should be pointed out, when private citizens can own homes and other buildings, they are compelled to rent the land beneath the building. On the other hand, corporations nowadays may own land, but they do not have the right to sell it. Despite the fact that land ownership is a guaranteed right in the 1993 Yeltsin constitution, it is not yet practiced as the law of the land.

Everyone in the Soviet Union was compelled by law to have a job controlled in some way by the state and the party. The Soviet state was like one giant firm with thousands of different arms. Whether one was a teacher, a factory director, an actor, or a salesperson, one was always a state employee.

There were two exceptions to this rule of state employment—peasants working on communal farms and artists. For Panikin’s story it is important to realize that there actually existed a law permitting artists and artisans to obtain licenses to work for themselves as long as they did not employ other people. As he points out, this law was an extremely well kept secret, so well kept that hardly anybody knew about it. He tells how he used it to create what became a large cottage industry. By the mid-1980s, he had fifty or more people involved with making and selling various knick-knacks, toys, and clothing.

While continuing to build his business, Panikin was careful to keep some official job in the theater. Despite the law on individual labor, a person was wise to hold some form of state employment on pain of being labeled a “tuneyádets” or a parasite, the punishment for which might be a term in prison. In one way or another, the state could control each and every citizen through access to employment.

In his memoir Panikin devotes considerable attention to the amounts of money that he accumulated. The reason is to emphasize the increasingly high risk that he was taking. Soviet financial policy was aimed at making money valueless and thereby curbing grassroots economic initiative. This way the state could deny the ordinary person the social mobility and opportunity to gather liquid wealth that money provides. It could, thus, concentrate greater power and control in itself. Because of this devaluation of money, the comfortable life—access to nice housing, good quality food, the chance to travel abroad depended in large part on one’s position in the state hierarchy. Wellbeing depended on the ability to barter the perquisites of one’s job—be

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they theater tickets, travel opportunities, fresh produce, or an apartment—for what one needed.

Under the Soviet regime cash was used only at the end stage of the chain of production and distribution. Raw materials were distributed according to the blueprint laid out in the five-year plan drawn up by Gosplan, the State planning commission, working closely with the Council of Ministers and the Politburo. Here no cash was transferred, and state companies used only clearing, non-cash accounts where no money changed hands, and accounts were kept on paper. The same was true for the distribution of produced goods. These would be picked up at the factory and delivered to a wholesale warehouse (*optovaia baza*). From there the goods would be delivered to individual stores. The cash collected from sales would then be delivered to the State Bank for eventual redistribution as wages according to the five-year plan.

Consumers used their pay (which they received in cash since there was no such things as checks) to purchase consumer items: food, clothes, medicine, and other necessities. Whatever might be left over they could keep in a savings account at the State Savings Bank (Sberbank). This was an institution unlike any Western bank. It offered no interest on bank accounts and worked in close cooperation with the police. It was almost impossible for an ordinary person to build up cash wealth. In the 1980s the average monthly wages were approximately 200 rubles. Some daily needs were covered through distribution of food of better-than-average quality through one's job. An employee regularly received a portion of food, often of better quality and at lower prices, through the ordering department at his workplace (*otdel zakazov*). More or less free vacations also were available through work. Beyond that, since one had to pay for everything out of one's salary—rent (low as it was), clothing, food, telephone—very little would end up in the savings bank. A typical bank account held about 1200 rubles.<sup>1</sup> 3000 rubles would be enough to buy a tiny car, the Zaporozhets. Since government organs could and did monitor bank accounts, already a bank account of 5000 rubles would attract attention. With this kind of money one could buy a Zhiguli, the Russian Fiat, which was considered by most people to be a luxury car. This was the car that Panikin first owned while he was a student in the 1970s, and it raised a lot of eyebrows. Most Soviets would already suspect a person with that much money of engaging in criminal activities, and that person would eventually come to the attention of the local party committee and the police.

If one had 10,000 rubles or more, as Panikin soon did, one could draw the attention of the dreaded OBKhSS (*Otdel po bor'be s khishcheniiami sotsialisticheskoi sobstvennosti*) or the Department for Fighting Theft of Socialist Property. Here we will simply call it the Economic Crimes Division. The purpose of this department was to curtail personal use of the country's

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<sup>1</sup>Thanks to Olga Kryshstanovskaia for this information.

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raw materials and finished products. The punishment for being caught could be severe—release from one’s job, imprisonment, and even execution. It is worth noting that as late as the Andropov regime in 1982 and 1983, the famous “token” entrepreneur, Yeleseyev, who ran a large delicatessen in the center of Moscow, was executed for alleged economic crimes.

To cut down on pilferage and theft—that is, the diversion of materials from the state to the private arena—raw materials were distributed to factories according to the five-year plan but could only be legally purchased by ordinary citizens in a store where they would be available in very small amounts, if at all. This very cumbersome system, as Panikin implies, led to difficulties for factory directors themselves. Often materials, if they were delivered, were delivered in the wrong amount. Directors had to use their ingenuity to obtain the necessary materials and produce the necessary quota of goods in the allotted amount of time. In fact, quite a bit of trading of raw materials went on between factories, all of which had to be non-cash transfers or barter trade.

The same held true for rejected products that were deemed to be of too poor quality to be sold in a store. These would be taken to a recycling station where they would be destroyed or restored as usable raw material. An ordinary person like Panikin might be able to get such materials only if they met two conditions—if they had an official document stating that the goods were needed at their place of work and if they could bring some materials of approximately the same weight to barter. Thus, Panikin’s risk-taking behavior—for example, his warehousing tons of plaster of Paris, and his quest for materials, even when they are only rejected nylon stockings or a bit of insulation for baby shoes—takes on epic proportions. If he had been caught with all this material, it would have been assumed that he had stolen it.

It should be noted here that Panikin’s memoir is unique for the clarity with which he lays out the underground network of non-official trading routes that allowed the stiff, unbending Soviet regime to function as long as it did. In a sense, anyone who achieved anything of quality had to bend the rules more than a little.

The final point about the Soviet economy that can help us understand the role that Panikin played is that consumer goods and services were at the bottom of the list of state priorities. At the top of the list were military and other heavy industrial interests. In addition, Marxist theory emphasized on production rather than consumption, so that consumer services did not even count as part of the national economy. Production of consumer goods, like almost everything in the centrally planned command economy, was a clumsy affair at best. Central planning with its hierarchical structure was not nearly as sensitive to consumer demand as a market economy is. A market economy is motivated by orders from customers, while the Soviet centrally planned economy was motivated by numbers, that is, a high quantity of production. In this centralized economy there was no principle of profitability. On the

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contrary, price setting seemed at best a secondary consideration. Prices in the Soviet era would be revised only once every decade or so and thus had no relation to real demand. There was no device for measuring consumer demand except the oversized hierarchy linking ministers at the top, factory directors in the middle, and salespeople at the bottom. Of greatest importance typically for the factory directors in the middle of the hierarchy was to meet the imposed quotas and thus to receive the rewards from on high that accrued to those who fulfilled the five-year plan. For their part, the salespeople at street level knew all too well that they were working in a sellers' market in which there was a continual deficit of desirable goods. Often they would play that market for all it was worth, hoarding, speculating, and bartering their goods for other goods and services. They became part of a large black market in which goods were sold at high prices much closer to their appropriate value in a deficit economy.

By the 1970s, when city people's minimal needs were being met and they were accumulating some disposable income, there was ever increasing demand for interesting, fashionable, and well-made consumer products. Usually these goods came from such Soviet bloc countries as Hungary, Poland, or Czechoslovakia, and less frequently from the West. Soon Russians like Panikin learned to make and sell similar items at much lower prices. This demand gave Panikin with his cheap wall decorations, earrings, toys, and clothes a large and willing, if somewhat suspicious, clientele.

When Mikhail Gorbachev came to power in March, 1985, the Soviet economy was already in shambles, and everyone in the planning and producing process knew it. Although there was a great deal of discussion about renewing the economy, five years were lost in doing nothing. Everyone talked, some promising laws were passed, but there were few concrete results. The economic situation continued to deteriorate, and Gorbachev was caught in a contradiction. Although he remained loyal to the Soviet command economic structure, he insisted that grassroots economic initiative must be loosened in order to revitalize the economy. It was impossible to give rein to private initiative and still privilege the institutions of a centralized economy aimed at reining in private initiative. One could not have one's cake and eat it, too. Gorbachev's major push to loosen the command structure came in January 1988, when his Law on State Enterprises was passed. State enterprise directors were to be given greater independence from Gosplan and workers more of a voice in the administration of the firm. Neither stipulation helped since central control of access and distribution remained in tact.

The next step came in May 1988, with the law legalizing certain kinds of private business, called "cooperatives." Most of these were shops and restaurants, although some like Panikin's cooperative Shuttle manufactured goods, working on contract with factories. The factories would provide materials, and the cooperatives would produce finished products. This system, too, did not work very well, although many thousands of

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cooperatives came into being. Factory directors perceived the cooperatives to be direct competitors and tended to use their advantages, such as access to materials, to capital, to machinery, and to space, to strangle the new producers. Panikin's answer was unusual. He had capital on hand that most people did not that permitted him to take control of the whole production process for knitting jersey cloth, dyeing it and producing finished clothes. Eventually he became fully independent of the state factories.

Even in 1988, before the two laws of 1990 authorizing private ownership and the formation of any kind of corporation, Panikin won out and created a company, Paninter, of a significant size, which by 1997 grew to over 1000 workers. In 1990 Panikin was able to start what on paper looked like a multinational venture. Just as the law on corporations passed late in 1990, he created a German arm of his company that then made it possible for him to purchase high-quality European knitting machinery and to import it.

What Gorbachev failed to do was to create a legal structure that would provide the stability necessary to support and encourage Russians as they ventured into private industrial production. Soon after the failure of the cooperative movement and the fall of the Soviet Union in 1991, most would-be producers went under, forced by the continuing resistance to private initiative on the part of the ministries and state enterprises. Access to materials remained all but closed. Many of those people became traders, selling whatever they were given to sell, or engaging in the import and export of goods. It took a resolute person of enormous ingenuity, such as Panikin, to find his way through all the pitfalls and traps that drove most Russians away from production and back to trade.

The role played by public attitudes to business and capital wealth should not be underestimated and may well have some bearing on the historical tendency of the Russian state to oppress native private initiative. The long-held public prejudice against wealth and resentment aimed at well-to-do people shines through in such situations. Russian economic culture has been called a "culture of envy." American readers sometimes believe that Russians would jump at the chance for an American-style free market economy and economic individualism if only they were not so oppressed by their government. Although they made use of black market opportunities for better consumer goods, it is not true that the Soviet public as a whole was secretly for private enterprise. If they had been, it is unlikely that the Soviet system would have lasted in the same rigid form as long it did. Business elites have been poorly treated in modern Russia, from the 18<sup>th</sup> century on. During the collectivization of the land in the late 1920s the relatively wealthy peasant *kulaks* were systematically destroyed by their fellow Russians who were willing certainly to take away their land and even to kill them. Since the end of the Soviet regime the typical attitude toward wealth has been that, if someone has it, then they probably stole it.



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It should, of course, be noted that, despite state oppression and public suspicion of businesspeople and their wealth, Russia has seen a persistent stream of private enterprise. Throughout the last decades of the Soviet regime many used the services of black marketeers out of desperation. Nevertheless, these traders like their predecessors of the NEP period and of tsarist times had no legitimacy, much as loan sharks and the like do not in American culture. They focused on quick wealth and rarely thought of the public good. Panikin stands out against all these negative stereotypes of the self-serving nomenklatura, the street shysters, and the mafia. At times he takes on a somewhat didactic tone, teaching his reader what qualities the good entrepreneur should have. One of his goals is indeed to forge a more positive image of Russian business, one that links private wealth with a national vision of the future.

In his memoir Panikin has formed what could eventually become the basis for a new Russian “myth” of the good, ethical entrepreneur. It should not be surprising that many countries with a successful history of capitalist development also have a culture hero who is an entrepreneur. The Germans had Faust who was willing to take tremendous risk and who welcomed continual change in his life. Americans looked affectionately to Horatio Alger, the American icon of the man who made good. The English had Robinson Crusoe, among others, who represented the positive power of economic individualism to amass wealth, improve nature, and raise the quality of human life. In his memoir Panikin wants to project an image of an ethical self-made man.

It may also come as a surprise to an American reader, who believes that Russians tend to be atheists, to learn that Panikin finds the strength to resist the forces of social conformity through religious belief. In the West, as Max Weber famously showed us, capitalism and the authority to accumulate private capital came from a Protestant belief in personal predestination and in a personal, unmediated relationship with one’s God. However, Panikin is most unusual for the Russian world, in which Russian Orthodoxy has traditionally preached poverty, passivity, and asceticism. He is an odd sort of protestant, driven by a strong, inner sense of fate. Although at times he seems very self-willed, he personally believes in fate—that he must play out the part that has been handed to him. This firm inner conviction helped Panikin to withstand and even prosper in one of the most coercive states in world history. In his story it becomes abundantly clear that the Soviet State failed to destroy basic economic instinct.

One disclaimer is in order. Despite Panikin’s efforts to be honest in his account, readers should not expect a historically complete or even fully accurate account of the momentous events of the last ten years. Panikin is no historian and no economist. He is writing a kind of personal confession aimed at a middlebrow Russian audience. He does not always get dates right, and

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there are clear gaps in his narrative of wealth and success. To a typical American taste his descriptions of private family relations will seem scant and his unbending focus on himself—self-serving. Nonetheless, this memoir is unique: it is the first in Russian history written by an active entrepreneur and is of great value if only for its lively defense of capitalism and of the notion of the good businessperson.

It is of the greatest importance that Panikin gives us a new voice in defense of private wealth that can be heard in the mainstream Russian press. His memoir appeared in November 1997, in one of Russia's most prominent literary journals, *Novyi mir* [*New World*]. Now readers were exposed to the views of a businessperson who believes that there ought to be some firm rules of the game and who makes an effort to operate his business aboveboard. They could read about an entrepreneur who believes strongly in giving back to his community through philanthropy. Panikin currently pays the pensions of the retirees in the Moscow neighborhood in which his company Paninter is situated. This public image is needed most of all today when the vast majority of Russians are convinced that their business elite is nothing but a violent, selfish bunch of crooks bent on self-enrichment.

Bit by bit Panikin is rejuvenating his small piece of Russia, creating his own entrepreneurial “microworld.” Many people are feeling the benefits. In Panikin we can see the possibility of a successful, native Russian capitalism with a human face.

—Lawrence, Kansas  
Summer, 2000

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